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Nos. 86-495, 86-624 and 86-625

IN THE

Supreme Court of the United States

OCTOBER TERM, 1987

K MART CORPORATION,
Petitioner,
v.
CARTIER, INC., *et al.*

47TH STREET PHOTO, INC.,
Petitioner,
v.
COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

UNITED STATES OF AMERICA, *et al.*,
Petitioners,
v.
COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit

MOTION FOR LEAVE TO FILE SUPPLEMENTAL BRIEF AND SUPPLEMENTAL BRIEF FOR PETITIONER K MART CORPORATION ON REARGUMENT

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April 13, 1988

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MOTION FOR LEAVE TO FILE SUPPLEMENTAL BRIEF

Petitioner K mart Corporation ("K mart") hereby moves to file, more than ten days in advance of the April 26, 1988 reargument of this case on the merits, the accompanying supplemental brief. In accordance with Rule 35.5, K mart's supplemental brief deals with late authorities, recent legislative developments, the Respondents' April 4, 1988 supplemental brief and other matters which have intervened since September 22, 1987, when K mart filed its reply brief.

Respectfully submitted,

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SUPPLEMENTAL BRIEF FOR PETITIONER K MART CORPORATION ON REARGUMENT

Petitioner K mart Corporation ("K mart") submits the following supplemental brief dealing with late authorities, recent legislative developments, the Respondents' April 4, 1988 supplemental brief [1] and other matters which have intervened since September 22, 1987, when K mart filed its reply brief.

ARGUMENT

Respondents continue to argue, now based on "new" authority, that the Court should disregard both the legislative purpose behind Section 526, as expressed in its legislative history, and public policy, as expressed most particularly in the trademark and antitrust laws, in judging whether the Customs Service regulation is valid. No recent authority supports Respondents' position that this Court should overturn a regulation which Congress has repeatedly ratified and upon which American distributors, retailers and consumers have relied for some fifty years. As the Court recognized in its March 7, 1988 decision on jurisdiction, this is an issue with an immediate and substantial effect on the nation's economy. The effect will be decidedly adverse if Respondents succeed in banning parallel imports.

I. Recent Decisions

The cases on which Respondents newly rely do not support their position. Neither *Gwaltney of Smithfield, Ltd. v. Chesapeake Bay Foundation, Inc.*, 108 S. Ct. 376 (1987), nor *ETSI Pipeline Project v. Missouri*, 108 S. Ct. 805 (1988), deal with an agency's interpretation and enforcement of a statute or a fifty year history of agency

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[1] K mart notes that much of Respondents' supplemental brief is in the nature of a reply brief devoted to repetition of the arguments in Respondents' May 7, 1987 brief, rather than a supplemental brief as contemplated by Rule 35.5.

and industry reliance on a regulation.[2] However, in both cases, the Court undertook a careful study of legislative history, as well as a reading of the bare statutory words.

Thus, in *ETSI Pipeline*, the Court turned to the original House version of the legislation to determine that the Secretary of the Interior had no power to take the challenged action. The Court noted the Secretary himself had testified against the regulatory power and urged adoption of a different statutory scheme. 108 S. Ct. at 814. Similarly in *Gwaltney*, the Court used legislative history to support its reading of the act in question. 108 S. Ct. at 383-384.

If anything, the Court's resort in *Gwaltney* and *ETSI Pipeline* to common sense and the Court's extensive examination of legislative history—the very sources Respondents urge the Court not to ignore—comport with the approach which Petitioners have advocated. Section 526 was passed to correct the perceived unjust result in *Katzel*.[3] It is silent or ambiguous on the specific issue of importations by related multinational enterprises.[4] It was

[2] Likewise, *Bethesda Hospital Ass'n v. Bowen*, 56 U.S.L.W. 4279 (U.S. Sup. Ct. April 5, 1988), did not involve a conflict between a statute and an agency regulation. In construing the statute, however, the Court consulted "the language and design of the statute as a whole," 56 U.S.L.W. at 4281, just as here an examination of *Katzel* and the trademark considerations which underlie Section 526 compels approval of the Customs Service approach to parallel imports.

[3] *A. Bourjois & Co. v. Katzel*, 275 F. 539 (2d Cir. 1921), *rev'd*, 260 U.S. 689 (1923).

[4] Respondents now contend, contrary to the evidence, that Section 526 was quite carefully drafted and the subject of "lengthy consideration." In fact, it was a "midnight amendment" the debate on which is found on a mere three pages of the Congressional Record. 62 Cong. Rec. S 11,602-11,605 (Aug. 19, 1922). Contrary to Respondents' contention that the provision was subject to "quite lengthy" consideration, its drafters never considered precisely what classes of trademark owners would be protected until the floor debate. The debate regarding the impact of Section 526 on foreign companies is brief and very confused, as even the court of appeals below acknowledged. Hasty or not, Congress had no intention of allowing foreign companies, such as comprise the bulk of COPIAT's membership, to control the United States market by registering their trademarks with the Customs Service.

not meant to aid foreign companies at the expense of American consumers. In fact, not even Respondents have the temerity to suggest that Congress had any such intention in 1930 or was then faced with the situation of foreign companies establishing American subsidiaries to insulate their trademarked goods from price competition.

The decision in *NLRB v. United Food & Commercial Workers Union*, 108 S. Ct. 413 (1987), supports Petitioners and is more on point. Here, the Court deferred to an agency interpretation which was, like the Customs Service regulation, "rational and consistent with the statute." 108 S. Ct. at 421. Moreover, the Court recognized that the agency had applied its statutory interpretation consistently, even though the regulation in question, like the Customs Service regulation at issue here, had been amended several times over a thirty year span.[5] 108 S. Ct. at 421 n. 20.

The Customs Service regulation meets all these criteria: (a) it is rational because it deftly melds the tariff, trademark and antitrust laws; (b) it is consistent with the statute because Congress did not purport to deal expressly with the situation of trademark ownership by related companies in a multinational enterprise; and (c) it is self-consistent because none of the Customs Service regulations on parallel imports over the past 50 years conflict with the present regulation as it was adopted in

[5] Respondents repeatedly suggest that the parallel import regulation is defective because the Customs Service did not always publish lengthy justifications for it and did not cite precisely the same rationale each time it was reenacted. There is certainly no indication in *United Food* that the Court held the NLRB to such an unrealistic standard over a thirty year period.

1972.[6] Moreover, the Customs Service regulation has been ratified by Congress and is decades older than the NLRB interpretation to which the Court deferred in *United Food.*

Thus, recent decisions reemphasize the need to review the legislative history of Section 526 to determine the deference to be accorded the Customs Service regulation. When such a review is conducted, it becomes clear that Congress never intended the drastic interpretation of Section 526 which Respondents now suggest. If anything, Congress in 1922 made it clear that the statute was to protect the rights of American citizens against the perceived injustice in *Katzel.* An interpretation which would have the Customs Service enforce the inflated retail prices set by foreign multinational enterprises, to the detriment of American consumers, cannot be squared with this legislative intent.[7]

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[6] Only Respondents find inconsistency in the Customs Service regulations promulgated from 1923 to 1972. While the earliest regulations merely recited the statutory language and later versions varied somewhat in their wording from decade to decade, Customs law experts and Congressional reports have found no significant inconsistency in the Customs Service recognition and enforcement of the exceptions now found in 19 C.F.R. § 133.21. H.R. Rep. No. 621, 95th Cong., 1st Sess. 27 (1977) (Customs Service consistent for at least twenty years); J. Atwood, Import Restrictions on Trademarked Merchandise—The Role of the United States Bureau of Customs, 59 Trademark Rep. 301, 307 (1969) (Customs Service always recognized related company exception).

[7] It is certainly not necessary, as Respondents suggest, to "insert words" into Section 526 to reach such a conclusion. Since the bare statutory words do not resolve the issue of whether a foreign corporation can use its trademark to isolate the United States market from price competition, it is proper for the Court to consult legislative history and for the agency to conform its regulatory scheme to the public interest.

II. Legislative Developments

Although Respondents would have the Court ignore the many instances where Congress approved of the Customs Service regulations, they take great satisfaction in noting that the Senate Finance Committee declined to codify the regulation by amendment to the very controversial international trade bill now pending in Congress.[8] In fact, however, Congress has adopted neither legislation to codify the regulation[9] nor legislation to codify Respondents' position.[10] Congressional inaction on these proposals at most reflects Congressional reluctance to act on this matter while it is pending before the Court.[11]

Moreover, when the matter has reached the floor of Congress, as it did in the case of alcoholic beverages, attempts to curtail parallel imports have been defeated overwhelmingly in the interest of protecting the American consumer from gross overcharges at the hands of foreign manufacturers.[12]

III. The Trademark Laws

Respondents continue to ignore the trademark laws in their discussion of Section 526. This is surprising inasmuch as the courts, Congress and the Customs Service have historically regarded Section 526 as, in large part,

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[8] H.R. 3, 100th Cong. 1st Sess. (1987).

[9] S. 1097, 100th Cong. 1st Sess., 133 Cong. Rec. S 5,524 (daily ed. Apr. 27, 1987).

[10] S. 1671, 100th Cong. 1st Sess., 133 Cong. Rec. S 11,893 (daily ed. Sept. 9, 1987).

[11] Congress has repeatedly stated as much. *See* S. Rep. No. 470, 98th Cong., 2d Sess. 7-8 (1984); S. Rep. No. 71, 100th Cong., 1st Sess. 130 (1987); H.R. Rep. No. 40, 100th Cong., 1st Sess. 158 (1987).

[12] 132 Cong. Rec. H 11,080-11,085 (daily ed. Oct. 15, 1986).

a trademark provision.[13] This is not surprising, however, in light of the rather uniform precedent which holds that parallel imports do not infringe trademark rights because no "copying or simulating" is involved.[14]

This was the view expressed in *NEC Electronics, Inc. v. CAL Circuit Abco, Inc.*, 810 F.2d 1506 (9th Cir. 1987), *cert. denied*, 108 S. Ct. 152 (1987), where the Ninth Circuit recognized the logic of the Customs Service regulation in the context of the Lanham Act:

> This country's trademark law does not offer NEC-Japan a vehicle for establishing a worldwide discriminatory pricing scheme simply through the expedient of setting up an American subsidiary with nominal title to its mark.

810 F.2d at 1511.

Although Respondents have again asserted that the Customs Service regulation interferes with "trademark territoriality," they offer no authority for the concept. As set forth in K mart's principal brief, neither Section 42 of the Lanham Act nor Section 526 of the Tariff Act nor the *Katzel* decision can properly be cited for supporting the concept of trademark territoriality. *See NEC Electronics*, 810 F.2d at 1510 n.4.

Finally, if Congress had intended the kind of sweeping trademark protection demanded by Respondents, it could have included such a provision in the Lanham Act—but instead, Congress ratified the Customs Service regulation in 1946. Likewise, Congress could have codified Respondents' position when it passed the Trademark Counter-

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[13] When Congress passed the Lanham Act in 1946, it expressly ratified the 1936 Customs Service regulation on parallel imports. Trademarks: Hearings on H.R. 82 before a Subcommittee of the Senate Committee on Patents, 78th Cong., 2d Sess. 86 (1944).

[14] Section 42 of the Lanham Act, 15 U.S.C. § 1124.

feiting Act of 1984[15]—but instead, Congress expressly acknowledged the long-standing Customs Service policy toward parallel imports.[16]

IV. The Antitrust Laws

Respondents continue to regard the antitrust laws as irrelevant to their anticompetitive marketing arrangements. For example, they choose to ignore K mart's oft repeated position that a trademark does not give its owner the power to restrict distribution and fix resale prices of products bearing that trademark.[17] *United States v. Sealy, Inc.*, 388 U.S. 350 (1967); *Timken Roller Bearing Co. v. United States*, 341 U.S. 593 (1951); *United States v. Bausch & Lomb Optical Co.*, 321 U.S. 707, 721 (1944); *Susser v. Carvel Corp.*, 332 F.2d 505 (2d Cir. 1964), *cert. dismissed*, 381 U.S. 125 (1965); *Sunbeam Corp. v. Wentling*, 192 F.2d 7, 9 (3d Cir. 1951).

Respondents also laud the virtues of interbrand competition as "the true source of consumer benefits" and denounce the vice of "free riding." However, consumers, as they have expressed themselves to the Customs Service, Congress and this Court, do not agree that they are benefitted by the Respondents' marketing arrangements. As amici, Consumers Union and the attorneys general of several states have emphatically argued that parallel imports benefit the consumer. Likewise Consumers Union, Public Citizen and Consumer Federation of America have supported access to parallel imports in general and the

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[15] Pub. L. No. 98-473, Chap. XV, 98 Stat. 2178.

[16] S. Rep. No. 526, 98th Cong., 2d Sess. 3 (1984), *reprinted in* 1984 U.S. Code Cong. & Admin. News 3627, 3629.

[17] For Respondents to characterize this as a "late-blooming idea" is false. K mart raised this point before the district court, the court of appeals and this Court. *See* K mart's petition for certiorari at p. 22 (Sept. 22, 1986); K mart's principal brief at pp. 41-42 (Feb. 21, 1987).

Customs Service regulation in particular; no consumer group has supported the COPIAT position.

Congress itself rejected the intellectual property "free riding" argument when it passed the Consumer Goods Pricing Act of 1975:

> Another justification for "fair trade" laws advanced by the manufacturers is that it protects their "good will" investment in their trademarks—namely, their advertising budgets. It is contended that the manufacturer's investment in promotion and advertising represents an asset—which would be destroyed if the price premium which was part of that "image" could be eliminated by intrabrand price competition at the retail level."
>
> * * * *
>
> The Committee was of the view that manufacturers should not be able to insulate their advertising budgets from the effects of intrabrand competition in this fashion, and that the marketplace should be allowed to judge the value of a "brand image" without the restraints imposed by resale price maintenance.

H.R. Rep. No. 341, 94th Cong., 1st Sess. 5 (1975).

The Federal Trade Commission study of parallel imports likewise found insufficient evidence of parallel imports contributing to "free rider or deception problems" and concluded that banning parallel imports would harm consumers "both in the short run and the long run." [18]

Respondents' renewed assertion that their corporate structures exempt them from antitrust liability is hardly credible. Throughout this litigation, COPIAT has revealed its membership selectively and reluctantly, understandably choosing to disclose that one atypical member has some production facilities in the United States, rather than to reveal how the vast majority of its members may be "mere shells."

[18] Comments of the Bureaus of Competition, Consumer Protection and Economics of the Federal Trade Commission on Gray Market Policy Options Facing the United States Customs Service (Oct. 17, 1986) at 15, 22.

Respondents' lack of credibility on this point is demonstrated by their contention that the American distributors of Leica and Nikon cameras "have fallen victim, in an especially vivid way" to the Customs Service regulation when they were acquired by foreign trademark owners.[19] The only "harm" they suffered is intrabrand competition from genuine Leica and Nikon cameras which their corporate parents market much more cheaply abroad—"the inroads of gray-market products" about which Respondents complain. Respondents can make no showing, however, that these multinational enterprises, taken as a whole, suffer in the least by having more of their goods sold in the United States, albeit at lower prices.

Even if Respondents profess ignorance of the antitrust implications of stifling parallel imports, Respondents' European affiliates are not so naive. On January 23, 1988, the European Community Commission fined the German and British subsidiaries of Konica (Japan) for violating the Community's competition rules by attempting to prevent the parallel importation and sale of photographic film.[20]

[19] Since these acquisitions occurred while the Customs Service regulation was in effect, the foreign parent companies must have determined that consolidating their operations would be more profitable than dealing through independent American distributors, despite competition from parallel imports.

[20] EC Commission Fines Konica Affiliates for Preventing Parallel Trade in Film, 54 Antitrust & Trade Reg. Rep. (BNA) 138 (Jan. 28, 1988).

CONCLUSION

Respondents have not advanced any new reason for the Court to overturn the Customs Service regulation of which Congress has been apprised and on which American consumers and a substantial domestic industry have relied for over five decades.

For these reasons and those set forth in K mart's February 21, 1987 and September 22, 1987 briefs, the judgment of the court of appeals should be reversed.

Respectfully submitted,

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